

TAX TIME 2000

TAX PACKAGES / POSTCARDS

The Internal Revenue Service will send about 59 million income tax packages or postcards this year. The mailout costs about \$9 million for printing and \$10.9 million for postage, for an average cost of just under 34 cents per item mailed. Most people will get their tax packages in early January. The IRS expects to receive about 127 million tax returns in 2000, with continued growth in e-filing by telephone and by computer.

Congress had not yet extended some expiring tax law provisions when the IRS finalized the content of the 1999 tax packages. The IRS wrote the instructions to reflect the expected enactment of these "extenders," but included a cautionary note about the pending legislation. Congress did extend the provisions, and the forms and instructions are correct as printed. The IRS was able to replace the cautionary language -- or add an insert to ignore it -- in all but about 8 million of the tax packages. Taxpayers receiving packages with the cautionary language will also get a follow-up postcard from the IRS, telling them that the forms are all right to use.

More than 21 million TeleFile packages invite recipients to file by telephone. These packages -- which contain no tax forms -- do include Customer Service Numbers, used to "sign" the returns, and a "Tax Record" which helps the taxpayer prepare for the call and serves as a record of filing. TeleFile is available for certain taxpayers who do not have dependents, whether they are single or married persons filing jointly.

The IRS last year stopped placing the taxpayer's social security number (SSN) on the name label in the tax package. Taxpayers should still use the name labels to help ensure a correct mailing address, but must put their SSNs on the tax forms. Each person's SSN should match the name on the Social Security card.

The IRS again sent postcards instead of forms to about 11 million taxpayers who used a computer to prepare or file their tax returns last year. The IRS is inviting them to participate in a pilot program for paperless e-filing. The mailing includes e-file Customer Numbers (ECNs) that the taxpayers will use to electronically "sign" their returns before transmitting them. The ECN eliminates the signature form that would otherwise be required. Recipients who want paper forms may download them from the IRS Web site or may use a reply postcard to request a regular tax package.

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Forms and publications are available via computer from the IRS Web site at www.irs.gov. The IRS TaxFax offers forms and instructions by return fax -- call 703-368-9694 from a fax machine.

TAXES: WHAT'S NEW FOR '99?

- **Child Tax Credit** -- Taxpayers may claim a child tax credit of up to \$500 for each eligible dependent under the age of 17. For 1998, the maximum credit was \$400 per child. The total credit is reduced by \$50 for each \$1,000 -- or part thereof -- of income above \$75,000 (\$110,000 for joint returns, \$55,000 for married persons filing separately).
- **Student Loan Interest Deduction** -- Taxpayers may deduct up to \$1,500 of interest paid on a qualified student loan during the first 60 months of the loan's repayment schedule. The 1998 limit was \$1,000. A person does not have to itemize deductions to claim this benefit, but cannot be claimed as a dependent, nor be a married person filing separately. The deduction is not available for those with incomes above \$55,000 (\$75,000, for a married couple filing jointly).
- **Deducting IRA Contributions** -- Higher income limits for deducting IRA contributions apply to workers covered by an employer retirement plan: \$41,000 for a single person or head of household; \$61,000 for a married person filing jointly. If only one spouse is covered by a plan, the other spouse may make deductible IRA contributions if their joint income is under \$160,000.
- **Reporting Capital Gain Distributions** -- Taxpayers whose only capital gains or losses are their capital gain distributions from mutual funds will be able to report these gains directly on Form 1040 instead of using Schedule D. They should report the amount on line 13 and check the box there. They will then use a worksheet in the instructions to figure their tax.
- **Self-Employed Health Insurance Deduction** -- Self-employed persons may now deduct up to 60% of their health insurance premiums for every month they were not eligible to participate in an employer-sponsored health plan.
- **Standard Mileage Rates** -- Taxpayers may deduct 32½ cents a mile for all business miles driven during the first three months of 1999, and 31 cents per mile for the remainder of the year.
- **Stop Smoking Program** -- Deductible medical expenses now include amounts paid for smoking cessation programs and prescription drugs to treat nicotine withdrawal. Non-prescription drugs or patches are not deductible.

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INFLATION ADJUSTMENTS FOR 1999

The filing requirements, personal exemption, standard deduction and maximum Earned Income Tax Credit amounts are adjusted each year for inflation.

- The 1999 gross income **filing requirements** are:

Single	\$ 7,050
Head of household	\$ 9,100
Married filing jointly	\$ 12,700
Married filing separately	\$ 2,750
Qualifying widow(er)	\$ 9,950

Different amounts apply if the taxpayer or spouse is age 65 or older, or if the taxpayer can be claimed as a dependent on someone else's return. There are also other specific situations which require the filing of a return, such as when the net earnings from self-employment are \$400 or more.

- The **personal exemption** amount for 1999 is \$2,750 -- \$50 more than last year. Higher income taxpayers may have to reduce the personal exemption amount they claim if their adjusted gross income exceeds:

Single	\$ 126,600
Head of household	\$ 158,300
Married filing jointly or Qualifying widow(er)	\$ 189,950
Married filing separately	\$ 94,975

These taxpayers use a worksheet in the tax package to figure their exemption.

- The **standard deduction** amounts for 1999 are:

Single	\$ 4,300
Head of household	\$ 6,350
Married filing jointly or Qualifying widow(er)	\$ 7,200
Married filing separately	\$ 3,600

Different amounts apply if the taxpayer or spouse is blind or is age 65 or older, or if the taxpayer can be claimed as a dependent on someone else's return.

- The **Earned Income Tax Credit** amounts for 1999 are:

<u>Qualifying child</u>	<u>Income Limit</u>	<u>Max. Credit</u>	<u>Income for Max. Credit</u>
One	\$ 26,928	\$ 2,312	\$ 6,800 - 12,500
Two or more	\$ 30,580	\$ 3,816	\$ 9,550 - 12,500
None	\$ 10,200	\$ 347	\$ 4,500 - 5,700

The maximum amount of investment income a person may have and still be eligible for this credit increased to \$2,350.

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